

Message Text

LIMITED OFFICIAL USE

PAGE 01 EC BRU 08005 01 OF 02 161808Z

43

ACTION AGR-08

INFO OCT-01 EUR-12 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04

TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01 PA-01 PRS-01 SS-15

NSC-05 /080 W

----- 011608

R 161730Z AUG 76

FM US MISSION EC BRUSSELS

TO SECSTATE WASHDC 1718

INFO ALL EC CAPITALS 2420

LIMITED OFFICIAL USE SECTION 1 OF 2 EC BRUSSELS 8005

PASS AGRICULTURE

E.O. 11652: N/A

TAGS: EAGR EEC

SUBJECT: POLICY IMPLICATIONS OF THE EC DROUGHT

REF: (A) STATE 194278, (B) EC BRUSSELS 7906, (C) EC BRUSSELS
6745, (D) EC BRUSSELS 7232

1. SUMMARY. THE MISSION FEELS THAT THE DROUGHT WILL NOT SIGNIFICATLY ALTER WELL-ESTABLISHED EC ATTITUDES ON AGRICUTURAL POLICY. IT WILL, HOWEVER, REDUCE PRESSURES FRO THE REFORM OR REVISION OF THE CAP TO SOME EXTENT. IN PARTICULAR, THE CHANCES FOR THE ADOPTION OF THE DAIRY PACKAGE HAVE BEEN REDUCED. THE DROUGHT HAS MADE LIBERALIZATION OF THE EC IMPORT REGIME FOR BEEF LESS LIKELY IN THE NEAR FUTURE; HOWEVER, IT MAY RESULT IN INCREASED IMPORT OPPORTUNITIES FOR BEEF IN 1977. THE DROUGHT WILL REDUCE SOMEWHAT EC EXPANDITURES ON AGRICULTURE IN 1976 AND 1977, BUT WILL GENERATE PRESSURE FOR HIGHEER-RHAN-NORMAL FARM PRICES INCREASES IN 1977/78.
END SUMMARY.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 EC BRU 08005 01 OF 02 161808Z

2. AS PER REF. A, OUR ASSESSMENT OF THE POLICY IMPLICATIONS

OF THE DROUGHT IS SET FORTH BELOW. THE LATEST COMMISSION ESTIMATES OF THE EFFECTS OF THE DROUGHT ON THE 1976 CROP PRODUCTION WERE PREPARED IN REF. B.

3. DAIRY. WE FEEL THAT THE MAJOR POLICY IMPACT OF THE DROUGHT WILL BE TO REDUCE THE CHANCES THAT THE COMMUNITY WILL ADOPT SIGNIFICANT MEASURES TO DEAL WITH THE CHRONIC DAIRY SURPLUS. ALREADY THE DROUGHT HAS PROVIDED THE EC AGRICULTURAL MINISTERS WITH A CONVENIENT EXCUSE TO AVOID SERIOUS DISCUSSION OF THE COMMISSION'S DAIRY PACKAGE (REF. C) BEFORE THE SUMMER VACATION (ALTHOUGH IT IS DOUBTFUL THAT THE COUNCIL WOULD HAVE TAKEN ANY ACTION BEFORE THE SUMMER VACATION IN ANY CASE). COMMISSION OFFICIALS ALSO TELL US THAT WHEREAS LARDINOIS HAD ORIGINALLY SET A RANGE OF 2.5-5 PERCENT FOR THE PROPOSED TAX ON MILK PRODUCTION, BECAUSE OF THE DROUGHT, HE NOW TALKS OF A 2.5 PERCENT MAXIMUM FOR THE FIRST YEAR.

4. IT DOES NOT APPEAR THAT THE DROUGHT WILL REALLY TURN AROUND THE DAIRY SURPLUS SITUATION. MILK DELIVERIES TO DAIRIES ARE STILL EXPECTED TO BE UP IN 1976 BY 1.7 PERCENT. HOWEVER, THE DROUGHT, IN COMBINATION WITH DISPOSAL MEASURES ALREADY TAKEN BY THE COMMUNITY, WILL PROBABLY STABILIZE THE SURPLUS SITUATION. ASSUMING THE COMPULSARY PURCHASE SCHEME DISPOSES OF 400,000 TONS OF NFDM, STOCKS OF NFDM MAY BE A LITTLE LOWER THAN LAST YEAR'S LEVEL BY THE END OF THE YEAR; IN ANY CASE, THEY ARE UNLIKELY TO BE MUCH HIGHER. THIS STABILIZATION WILL MAKE IT MUCH MORE DIFFICULT TO PUSH THROUGH ANY SORT OF DAIRY PACKAGE. THE POLITICAL DIFFICULTIES ASSOCIATED WITH CHANGES IN DAIRY POLICY, ESPECIALLY WITH REGARD TO THE PENALIZING OF DAIRY PRODUCERS, ARE SUCH THAT AN ATMOSPHERE OF IMMINENT CATASTROPHE MUST BE CREATED BEFORE THE MEMBER STATES ARE LIKELY TO ASSENT TO SUCH CHANGES. THE 1 MILLION PLUS FIGURE FOR NFDM STOCKS HAS BY NOW LOST MUCH OF ITS SHOCK VALUE, AND THE DROUGHT, AROUSING THE HOPE THAT THE SITUATION MIGHT NOT WORSEN, MAY FURTHER DISPEL THE CRISIS ATMOSPHERE. EC AGRICULTURAL MINISTERS WILL BE GREATLY TEMPTED TO WAIT AND SEE WHAT THE WEATHER LOOKS LIKE IN SUMMER 1977 BEFORE MAKING UNPOPULAR DECISIONS.

5. WE ALSO FEEL THAT THE PROSPECTS FOR THE DAIRY PACKAGE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 EC BRU 08005 01 OF 02 161808Z

WERE HURT BY THE COMMISSION'S INCLUSION OF A PROPOSED TAX ON FATS AND OILS. WITH THE CONNECTION HAVING OFFICIALLY BEEN MADE BETWEEN A TAX ON DAIRY PRODUCERS AND A TAX ON FATS AND OILS, WE CAN EXPECT THAT FRANCE AND THE OTHER MEMBER STATES BASICALLY OPPOSED TO THE DAIRY TAX WILL STUBBORNLY OPPOSE ANY ATTEMPTS TO SEPARATE THEM. WE ARE HOPEFUL THAT OTHER MEMBER STATES, PARTICULARLY THE UNITED KINGDOM AND GERMANY, WILL BE EQUALLY STUBBORN IN THEIR RESISTANCE TO THE ADOPTION

OF A FATS AND OILS TAX. THUS, THE POSSIBILITY OF A STATEMATE
SEEMS VERY REAL.

6. ON THE OTHER HAND, LARDINOIS WILL BE PUSHING VERY HARD
FOR AGREEMENT ON THE DIARY PACKAGE BY THE END OF THIS YEAR.
HE VERY MUCH WANTS TO ACHIEVE A SOLUTION TO THIS PROBLEM
BEFORE LEAVING OFFICE--AS A SORT OF MEMORIAL TO HIS TENURE
AS COMMISSIONER FOR AGRUCULTURE. HOWEVER, WE FEEL THAT THE
MAXIMUM HE CAN PROBABLY ACHIEVE, UNDER THE CIRCUMSTANCES, IS AGREE-
MENT ON A BASIC REGULATION AUTHORIZING THE IMPOSITION OF A
TAX ON MILK PRODUCERS--WHICH COULD NOT SPECIFY THE AMOUNT
OF THE TAX OR PERHAPS NOTEVEN SPECIFY THAT THE TAX ILL
ACTUALLY BE APPLIED IN 1977/78.

7 BEEF. THE INCREASED SLAUGHTERING OF CATTLE ASSOCIATED
WITHE THE DROUHGT MAY DELAY THE PROMISED LIBERALIZATION OF
THE EC IMPORT REGIME FOR BEEF. IN ANYCASE, IT WILL ALMOST
CERTAINLY BLICK FURTHER CONSIDERATION OF SUCH LIBERALIZATION
UNTIL THE END OF THE YEAR. ON THE OTHER HAND, IF THE EC HERD
IS REDUCED SIGNIFICATNLY, THERE WILL BE IMPORVED OPPORTUNITIES
FOR IMPORTATION IN 1977 AND SUBSEQUENT YEARS. A RELAXATION
OF IMPORT RESTRICTIOS WOULD THEN BE FEASIBLE. THE DEVELOPMENT
OF THE EC BEEF MARKET IN THE NEAR FUTURE IS NOT AT ALL
CERTAIN, HOWEFER. AND THE COMMISSION HAS NOT YET BEEN WILLING
TO ESTIMATE BEEF PRODUCTION, CATTLE NUMBERS, OR SLAUGHTERING

LIMITED OFFICIAL USE

NNN

LIMITED OFFICIAL USE

PAGE 01 EC BRU 08005 02 OF 02 161829Z

43

ACTION AGR-08

INFO OCT-01 EUR-12 ISO-00 AID-05 CEA-01 CIAE-00 COME-00

EB-07 FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04

TRSE-00 LAB-04 SIL-01 SAM-01 OMB-01 PA-01 PRS-01 SS-15

NSC-05 ITC-01 /081 W

----- 011782

R 161730Z AUG 76

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 1719

INFO ALL EC CAPITALS 2421

LIMITED OFFICIAL USE SECTION 2 OF 2 EC BRUSSELS 8005

PASS AGRICULTURE

RATES FOR 1976 AND 1977. THERE IS WIDESPREAD EXPECTATION THAT FALL SLAUGHTERING OF CATTLE WILL BE EXTREMELY HEAVY. BUT AN OFFICIAL IN THE AGRICULTURAL DIRECTORATE HAS CONVEYED TO US HIS PERSONAL VIEW THAT THE DEPRESSION OF THE BEEF MARKET WILL NOT BE AS SEVERE AS IS GENERALLY EXPECTED. HE FEELS THAT THE HEAVY SLAUGHTERING THAT HAS ALREADY TAKEN PLACE WILL TAKE SOME OF THE PRESSURE OFF THE MARKET IN THE AUGUST-OCTOBER PERIOD--WHEN PRICES ARE NORMALLY DEPRESSED DUE TO THE CULLING OF HERDS. HE EXPECTS THAT PRICES WILL CONTINUE TO BE WEAK UNTIL PERHAPS NOVEMBER, BUT HARDEN THROUGH WINTER AND SPRING NOTING THAT:

A. THE NUMBER OF FATTENING CATTLE NORMALLY KEPT THROUGH THE WINTER IN THE AREAS HARDEST HIT BY THE DROUGHT IS NOT THAT GREAT.

B. MOST FARMERS WILL BE ABLE TO OVERCOME THE SHORTAGE OF FORAGE FOR WINTER FEEDING THROUGH INCREASED FEEDING OF STRAW, PROTEIN MEAL AND OTHER CONCENTRATES, AND THROUGH VARIOUS ADAPTATIONS TO NORMAL FEEDING PRACTICES.

8. 1977/78 PRICES. FARM ORGANIZATIONS WILL PRESS HARD FOR LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 EC BRU 08005 02 OF 02 161829Z

LARGER THAN NORMAL PRICE INCREASES IN 1977/78 FARM SUPPORT PRICES TO OFFSET INCREASED FEED COSTS AND THE REDUCTION IN INCOME RESULTING FROM THE DROUGHT. IN PARTICULAR, THE SHORTAGE OF FORAGE AND THE LARGE HIKE IN ITS COST WILL MAKE IT DIFFICULT TO HOLD THE LINE ON DAIRY AND BEEF PRICES. TO A CERTAIN EXTENT, THE EFFECTS OF THE DROUGHT WILL BE FACTORED INTO THE COMMISSION'S PRICE PROPOSALS. USING THE SO-CALLED OBJECTIVE METHOD, THE COMMISSION INITIALLY CALCULATES A RATE OF PRICE INCREASE AIMED AT ASSURING A RETURN TO LABOR EMPLOYED ON "MODERN" AGRICULTURAL UNITS COMPARABLE TO THE RETURN ON NONAGRICULTURAL LABOR--TAKING INTO ACCOUNT CHANGES IN PRODUCTION COSTS AND FARM PRODUCTIVITY. THE COMMISSION IS NOT, OF COURSE, OBLIGATED TO ADHERE STRICTLY TO THE RESULTS OF THE OBJECTIVE METHOD IN MAKING ITS PRICE PROPOSALS. ALSO, THE LOWER PROTEIN MEAL PRICES THIS YEAR WILL OFFSET INCREASED FORAGE COSTS TO A CERTAIN EXTENT AND, BECAUSE OF THE AVAILABILITY OF IMPORTED GRAIN, EC GRAIN PRICES WILL NOT INCREASE VERY MUCH.

9. GRAIN PRODUCERS WILL ALSO BE PRESSING FOR PRICE INCREASES TO OFFSET THE EFFECTS OF THE DROUGHT. THEIR CASE WOULD SEEM TO BE CONSIDERABLY WEAKER THAN THAT OF THE LIVESTOCK PRODUCERS, HOWEVER, SINCE THERE IS NO CLEAR EC OBLIGATION TO COMPENSATE

FOR REDUCED YIELDS.

10. THE AMOUNT OF PRESSURE FOR HIGHER PRICES IN 1977/78 WILL BE MUCH AFFECTED BY THE NATURE AND EXTENT OF THE EC AND NATIONAL MEASURES AIMED AT ALLEVIATING THE EFFECTS OF THE DROUGHT. THE MORE UNSATISFACTORY FARMERS FIND THESE MEASURES, THE MORE PRESSURE THERE WILL BE FOR HIGHER PRICES. THE EC HAS ALREADY TAKEN A NUMBER OF RELATIVELY MINOR MEASURES, SUCH AS INCREASED INTERVENTION BUYING FOR BEEF, TO DEAL WITH THE DROUGHT (REF. D). OTHER MEASURES OF A SIMILAR NATURE CAN BE EXPECTED (FOR EXAMPLE, TRANSPORTATION SUBSIDIES FOR STRAW AND FORAGE). HOWEVER, THE COMMISSION WILL PROBABLY RESIST SIGNIFICANT EC FUNDING OF MAJOR PROGRAMS TO AID FARMERS UNLESS TREMENDOUS FARMER UNREST IS ENCOUNTERED IN THE FALL. THE MAJOR PROGRAMS OF DROUGHT AID WILL PROBABLY BE INITIATED AND PAID FOR BY THE MEMBER STATES THEMSELVES.

11. IN THIS CONNECTION, MEMBER STATE POSTS SHOULD BE ALERT LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 EC BRU 08005 02 OF 02 161829Z

TO THE POSSIBILITY OF CONFLICTS BETWEEN THE MEMBER STATES AND THE COMMISSION ON THE QUESTION OF DROUGHT AID. THESE CONFLICTS COULD REVOLVE AROUND EITHER THE FUNDING OF AID PROGRAMS OR THEIR LEGALITY UNDER THE TREATY OF ROME. CERTAIN MEMBER STATES MAY CHOOSE TO USE THE THREAT OF NATIONAL AID AS A DUBIOUS LEGALITY AS A LEVER BY WHICH TO OBTAIN HIGHER PRICES OR OTHER POLICY CONCESSIONS. THIS STRATEGY HAS BEEN PURSUED WITH SOME SUCCESS IN THE PAST.

12. FEOGA BUDGET. EC EXPENDITURES ON AGRICULTURE WILL BE LOWER THAN THEY WOULD HAVE BEEN IF NORMAL WEATHER HAD PREVAILED, PARTICULARLY EXPENDITURES ON DAIRY, GRAINS AND SUGAR. AT THE SAME TIME, RECEIPTS FROM VARIABLE LEVIES WILL BE HIGHER BECAUSE OF INCREASED IMPORTS--PARTICULARLY IF WORLD GRAIN PRICES REMAIN AT THEIR CURRENT, RELATIVELY LOW LEVELS. A RECENT PRESS ARTICLE QUOTES EC OFFICIALS AS ESTIMATING A SAVINGS OF ABOUT \$200 MILLION. ON THE OTHER HAND, EXPENDITURES IN THE BEEF SECTOR WILL INCREASE. ALSO, A CERTAIN AMOUNT OF NEW EXPENDITURE WILL RESULT FROM EC DROUGHT RELIEF MEASURES, BUT THESE COSTS ARE NOT EXPECTED TO BE GREAT.

13. TARIFFS. THE EC MAY REDUCE OR SUSPEND TARIFFS ON SOME FARM PRODUCTS (FOR EXAMPLE, CERTAIN VEGETABLES) IN SHORT SUPPLY AS A RESULT OF THE DROUGHT. HOWEVER, SUCH SUSPENSIONS ARE LIKELY TO BE MADE FOR VERY SHORT PERIODS AND ARE LIKELY TO BE DIRECTED MORE TOWARDS EC PROCESSORS THAN CONSUMERS.

14. THE EFFECTS OF THE DROUGHT ON THE EC POLITICAL SITUATION ARE DIFFICULT TO SORT OUT. CERTAINLY, ITS EFFECT ON EC BUDGET EXPENDITURES SHOULD HELP TO REDUCE TENSION BETWEEN THE MEMBER

STATES. BUT IT IS ALSO POSSIBLE THAT THE DROUGHT COULD EX-
ACERBATE DIFFERENCES BETWEEN THE VARIOUS MEMBER STATES
(AND THE COMMISSION) RE 1977/78 PRICES AND THE DAIRY PACKAGE.
AND IT COULD GENERATE NEW CONFLICTS OVER NATIONAL AIDS
(AS PER PARAGRAPH 11). HOWEVER, COMMUNITY POSITIONS HAVE
NOT YET CRYSTALLIZED TO THE POINT WHERE WE FEEL FURTHER
SPECULATION ON THESE POSSIBILITIES WOULD BE PROFITABLE.

15. GENERAL. WITH REGARD TO THE EFFECTS OF THE DROUGHT ON
EC ATTITUDES TOWARDS THE MAJOR AGRICULTURAL AND TRADE POLICY
ISSUES--I.E., TOWARDS SELF-SUFFICIENCY, THE MTN OR THE CAP
LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 EC BRU 08005 02 OF 02 161829Z

ITSELF, THE MISSION DOES NOT SEE THE DROUGHT AS BEING SEVERE
ENOUGH TO SIGNIFICANTLY ALTER WELL-ESTABLISHED COMMUNITY
POSITIONS. THROUGH THE REDUCTION IN EC AGRICULTURAL EXPEN-
DITURES AND THE LESSENING OF SURPLUS DISPOSAL PROBLEMS,
THE DROUGHT WILL, OF COURSE, TAKE OFF SOME OF THE PRESSURE
FOR THE REFORM OF THE CAP. THE DROUGHT WILL ALSO REINFORCE
THE TENDENCY TO EXCUSE THE INEFFICIENCY AND PROTECTIONISM
OF EC AGRICULTURAL POLICY AS BEING A SMALL PRICE TO PAY FOR
THE MAINTENANCE OF A CERTAIN DEGREE OF STABILITY IN A
WORLD OF PRECARIOUS FOOD SUPPLIES.HINTON

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: AGRICULTURAL PRODUCTION, DROUGHTS, TRADE CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 AUG 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: ShawDG
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976ECBRU08005
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760314-0530
From: EC BRUSSELS
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760851/aaaabsbp.tel
Line Count: 304
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION AGR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 6
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 STATE 194278, 76 EC BRUSSELS 7906
Review Action: RELEASED, APPROVED
Review Authority: ShawDG
Review Comment: n/a
Review Content Flags:
Review Date: 05 APR 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05 APR 2004 by CunninFX>; APPROVED <12 AUG 2004 by ShawDG>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: POLICY IMPLICATIONS OF THE EC DROUGHT
TAGS: EAGR, ETRD, XT, EEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006